

July 19, 2019

[Presentation (pdf)]([https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2019/bullard\\_cembra\\_new\\_york\\_19\\_july\\_2019.pdf](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2019/bullard_cembra_new_york_19_july_2019.pdf))| [Press Release](<https://www.stlouisfed.org/news-releases/2019/07/19/bullard-discusses-public-and-private-currency-competition>)

Speaking in New York, St. Louis Fed President James Bullard said he views cryptocurrencies as new entrants into the ongoing global currency competition. “Cryptocurrencies are creating drift toward a non-uniform currency in the U.S., a state of affairs that has existed historically but was disliked and eventually replaced,” he said.

Global currency competition is nothing new, nor is electronic delivery of value, Bullard explained. But consumers and businesses may not like a system in which many types of currency trade simultaneously at a variety of prices in a local market, he pointed out.

“Currencies have to be reliable and hold their value,” Bullard said. “This is probably why government backing has been important historically, combined with a stable monetary policy that promotes stability of the currency.”

The problem of how to stabilize currency value is not mitigated by commodity-backed money, cryptocurrency or fixed exchange rates, Bullard noted. “One of the main lessons of monetary theory is that the credibility of future issuance policy is a key aspect to the value of a currency,” he said.

### **St. Louis Fed's Bullard Discusses "Public and Private Currency Competition"**

NEW YORK – Federal Reserve Bank of St. Louis President James Bullard discussed “ [Public and Private Currency Competition]([https://www.stlouisfed.org/-](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2019/bullard_cembra_new_york_19_july_2019.pdf)

/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2019/bullard\_cobra\_new\_york\_19\_july\_2019.pdf)” on Friday at the Central Bank Research Association’s 2019 Annual Meeting.

Bullard, who has contributed to the literature on “private money,” said research on the subject suggests that public and private currencies can compete and coexist. “Cryptocurrencies are creating drift toward a non-uniform currency in the U.S., a state of affairs that has existed historically but was disliked and eventually replaced,” he said.

Bullard noted that the international monetary system features non-uniform currency arrangements, but the volatile exchange rates that characterize the system have long been criticized. “Trying to fix exchange rates, as suggested by ‘stablecoins,’ has often failed,” he said.

#### *Global currency competition*

Global currency competition is nothing new, nor is electronic delivery of value, Bullard noted. Many currencies are government-issued and supported by the monetary policy of the issuing government’s central bank, he said.

However, he added that there are also micro-currencies of many types. For example, he pointed out that cigarettes became a currency among POWs during World War II, and he quoted a folk theorem from monetary theory that says “anything can be a currency.”

“I want to view cryptocurrencies of various types as new entrants into the ongoing global currency competition,” he said.

#### *Privately issued currency*

Bullard pointed out that privately issued currency can fit into this context of many competing currencies. The literature suggests public and private currencies can coexist as part of an equilibrium, in which one type of money need not crowd out the other, he explained. In an equilibrium like this, he added, both are required to allow all voluntary trade to occur.

“Another prediction from the theory is that if private currency issuance is

allowed, many private currencies would be issued,” Bullard said. “If we turn to the real world today, something like this appears to be happening.” He noted that more than 2,600 cryptocurrencies have been launched.

Bullard explained that consumers and businesses may not like a system in which many types of currency trade simultaneously at a variety of prices in a local market. “Currencies have to be reliable and hold their value,” he said. “This is probably why government backing has been important historically, combined with a stable monetary policy that promotes stability of the currency.”

#### *The vagaries of monetary policy remain*

“The problem of how to stabilize currency value is not mitigated by commodity-backed money, cryptocurrency or fixed exchange rates,” Bullard said.

He explained that under a gold standard, the government named the exchange rate between notes and gold, and governments sometimes altered this rate. With cryptocurrencies, there is monetary policy encoded in the system, but that system could bifurcate, creating two fixed volumes of coins instead of one—a process that can happen multiple times. Fixed exchange rate systems have often collapsed eventually, he added.

“One of the main lessons of monetary theory is that the credibility of future issuance policy is a key aspect to the value of a currency,” Bullard said.

Turning to an example, he noted that U.S. monetary policy is relatively stable, while Venezuelan policy has been unstable, leading the bolivar to devalue against the dollar. Bolivar holders were harmed relative to dollar holders due to unstable Venezuelan policy, he explained. “Cryptocurrencies can be subject to exactly this sort of failing credibility,” he said. “An issuing firm, for instance, could be associated with a failing business model, in which case the firm’s currency would also collapse.”

#### *The chaos of exchange rates*

Turning back to non-uniform currency systems, Bullard noted that societies have disliked such systems because the currencies trade at different values.

This can be avoided by having a uniform currency, he added.

While countries have wanted a uniform currency locally, Bullard pointed out that globally, there is not a uniform currency. Instead it is a system of competing currencies with widely fluctuating exchange rates, even in the case of the U.S. and Japan, which both have had relatively stable monetary policies in place.

Bullard noted that a local non-uniform currency system may have similar volatility to that of the global currency system in place today. “I am arguing that the current cryptocurrency wave may be driving the U.S. uniform currency system toward something more like the international non-uniform currency system,” he said.

### *Conclusion*

Bullard reiterated that the U.S. is drifting toward non-uniform currency trading arrangements, a system the society has disliked historically. He also noted that, globally, there is an example of a non-uniform system of currencies, but these currencies trade at exchange rates that are often viewed as excessively volatile.

Bullard concluded, “Cryptocurrencies may unwittingly be pushing in the wrong direction in trying to solve an important social problem, which is how best to facilitate market-based exchange.”

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- **July 10, 2019.** Moderated Q&A. OMFIF Foundation Main Meeting, St. Louis. [Video.](#)

### **Moderated Q&A: OMFIF Foundation Main Meeting**

July 10, 2019

St. Louis Fed President James Bullard addressed questions on monetary policy and the U.S. economy during a moderated conversation at the OMFIF Foundation Main Meeting in St. Louis. In particular, he shared his views on inflation expectations, policy normalization and the potential impact of slower global growth.

Bullard also talked about low interest rates and low inflation in the U.S., which are driven by demographics and relatively low productivity growth. These conditions have led to low short-term real interest rates on safe assets in the U.S., he explained.

- **July 8, 2019.** Presentation. "[Classic Policy Benchmarks for Heterogeneous-Agent Economies](#)," Modelling the Macroeconomy in Risky Times, National Institute of Economic and Social Research, St. Louis, Mo. [Presentation \(pdf\) \(bullard\\_dicecio\\_niesr\\_8\\_july\\_2019pdf\)](#).

### **Classic Policy Benchmarks for Economies with Substantial Inequality**

November 22, 2022

Presented during a policy panel at the XXV Annual Conference of the Central Bank of Chile, Heterogeneity in Macroeconomics: Implications for Monetary Policy.

[Watch the November 22, 2022, presentation and panel discussion](<https://www.stlouisfed.org/from-the-president/speeches-and-presentations/2022/policy-panel-central-bank-chile-conference>).

October 15, 2021

Presented at the Fall 2021 Institute Research Conference, Opportunity & Inclusive Growth Institute, Federal Reserve Bank of Minneapolis.

March 23, 2021

Presented at the Central Banking Series: Perspectives Across the Atlantic,